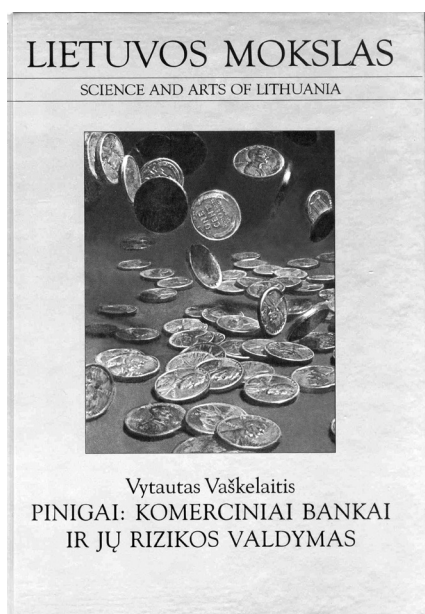




## NAUJŲ LEIDINIŲ RECENZIJOS REVIEWS

### INTELLECTUAL INNOVATIONS IN MONETARY POLICY: THREE BOOKS ONE DIRECTION\*



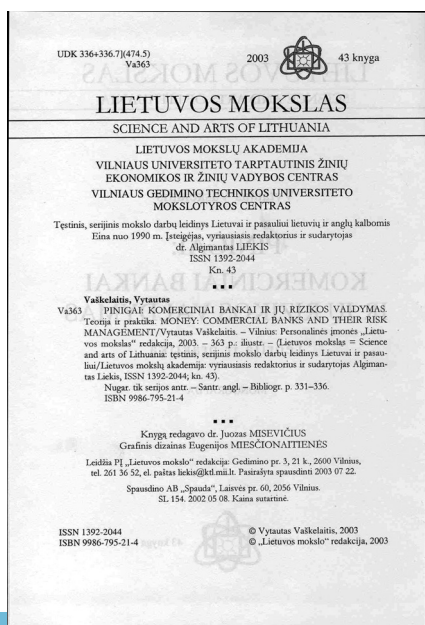
The economy of modern Europe is not any more the sum of economies of separate states, but the tightly integrated economic unit. The replacement of a multi-currency system by a single currency on the basis of the European economic and monetary unit is the stage in the same integration and convergence process; monetary policy that recently was the matter of each state was handed over to the European Central Bank. A voluntary rejection of monetary national independence and transition to the consolidated European level is a unique phenomenon in the history of the cooperation of the states. All these problems together with sophisticated innovations in banking technologies are discussed in the books of professor Vytautas Vaškelaitis<sup>1</sup>

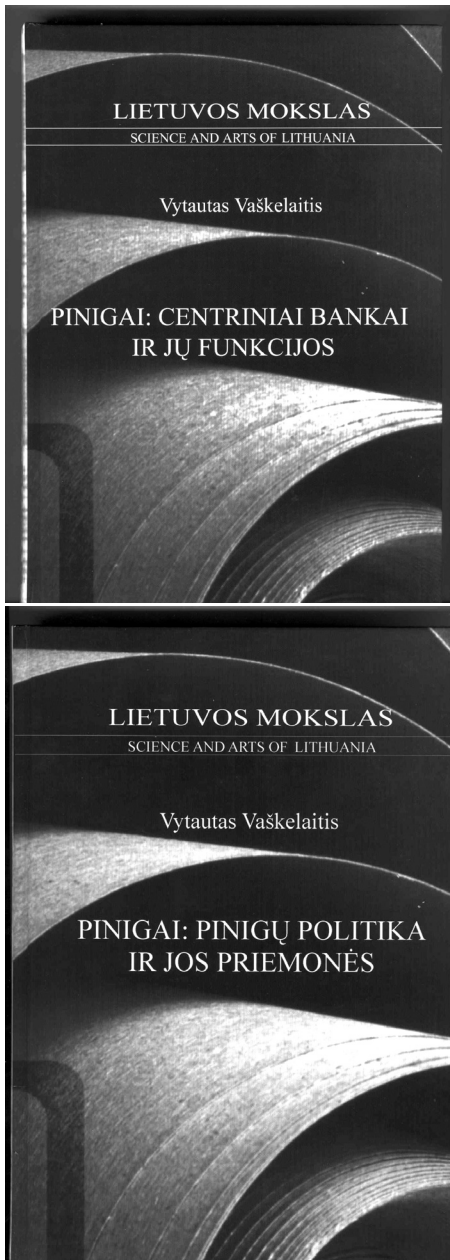
The resolution of the European states to have a common currency is based primarily on the economic considerations. After the creation of the common market in Europe, aims exist to make a better use of its advantages and for this purpose a common currency and monetary policy was needed in order to ensure the higher stability of the monetary system of the European Union Members States and to increase the importance of Europe for the world economy.

The undoubted advantages of the monographs “Money: Monetary Policy and Measures” and “Money: Central Banks and their Functions” are as follows: the monographs analyze relevant and important topic that definitely will be interesting for both academic society readers and practitioners. A comprehensive and wide conception of money, monetary policy, central banks activity and its development is presented; many new scientific findings, interesting and valued recommendations in theoretical and practical point are revealed. These monographs can be recommended for a wide range of readers especially for academics that work in economic studies as well as for students that are specialized in different monetary and financial studies and some practitioners that work in different financial and banking sectors.

The main topics of monetary policy, its measures and central banks activity are analyzed very widely and integrated. This analysis is oriented to actualities of monetary policy and central banks activity. Implementing systemic point of view the author presents all main circumstances that are essential to understand in order to solve

<sup>1</sup> Some years before prof. hab. dr. Vytautas Vaškelaitis issued the monograph *Monetary Settlements. Theory and Practice*. V.: Eugrimas, 2001. Here the system of payments is understood as the totality of the principles of payments organization, measures and technologies, the duties and rights of the participants in the process of payment.





\*Vaškelaitis, Vytautas. Money: Monetary Policy and Measures/ Pinigai: pinigų politika ir jos priemonės. Vilnius: VĮ Mokslo tyros institutas, 2006. – 486 p.: ISBN 9986-795-39-7; Money: Central Banks and their Functions / Pinigai: centriniai bankai ir jų funkcijos, 2006. – 443 p.: ISSN 1392-4044; kn. 56). Money: Commercial Banks and their Risk Management // Pinigai: komerciniai bankai ir jų rizikos valdymas. Teorija ir praktika. ISBN 9986-795-21-4 / Vilnius: „Lietuvos mokslas“ redakcija, 2003. – 363 p., ISSN 1392-2044; kn. 43).

actual monetary policy and central banks problems. In the context of international proceedings the actualities of monetary policy and central banks activity in Lithuania are widely discussed. The author presents a comparative analysis of experience in international practice, integrates the analysis of monetary policy and central banks activity and expansion of Euro zone, also economic internationalization. Important is the fact that author widely analyses the trends of money and monetary policy in the spread of information technology emphasizing the importance of e-money and possibilities of their development. The author gives attention to the macro- and micro-functions of central banks, monetary policy and banks activity considering the circumstances of shadow economics.

Finally, not only positive, but also negative properties of membership in the Economic and Monetary Unit are discussed, response to such questions are searched for, like those: how the Economic and Monetary Union and its main dimensions will be affected by new Member States, with a high difference of income and productivity (efficiency) of transitional asymmetric type, as compared to the older Member States? What does such membership mean for new candidates themselves? May the Economic and Monetary Unit collapse and what would be consequences thereof? By what power of the national Central Bank are they restricted under the conditions of monetary policy to eliminate the asymmetries of the economic cycle and production apparatus? Would the national bank be able to interfere into the “bubble“ economy, to suspend and destroy (by regulating the money supply and short-term interest rates) the “bubble“ of prices in separate sectors of the national economy (this, for example, in Lithuania becomes still more enforced in the real estate, primarily, the land and housing market).

In the past years, liberalization of financial markets and capital concentration have been increasing, therefore they will become interlinked; it will be still more difficult to separate and specify the activities of various financial institutions (those of banks, insurance, and securities) and their functions. This encourages a search for the most proper supervision model. Both models of supervision of financial institutions, the specialized one and the general model of joining the operating supervision services into one, have their advantages and disadvantages, even though it seems that the integrated supervision would better comply with the contemporary tendencies in the development of financial markets.

Upon the creation of the Economic and Monetary Union, part of the functions of the central banks of the member states lost their previous importance (for example, the need for the foreign reserves became reduced, since a major part of foreign trade of the countries is domestic) and part of the functions remained at a national level (for example, the responsibility of systemic supervisions of financial institutions and banks).

Thus, in editing this book, attempts were made to cover the many-sided monetary policy of present times, to generalize and initiate the newest experiences, contradictory evaluations and forecasts. The author striving was not to get lost in the flow of knowledge under formation and to put forwards what is essential.

The monographs “Money: Monetary Policy and Measures” and “Money: Central Banks and their Functions” of professor hab. dr. Vytautas Vaškelaitis attracted substantial attention in Lithuania.

Prof. habil. dr. Borisas Melnikas  
Head of Department of International Economics and  
Business Management,  
Faculty of Business Management,  
Vilnius Gediminas Technical University

Even though risk is very undesirable, it is unavoidable in the banking operation. In addition, a direct connection exists between the profitability sought and risk undertaken, i.e. seeking to achieve higher profitability, the bank must undertake higher risk. In other words, the more risk the bank undertakes, the more opportunities it has to raise higher profits. And if the bank wants to function by undertaking minimum risk, it cannot expect higher profits. Therefore each bank, in dependence on its “appetite” must “devour” a certain portion of risk.

The understanding that banking business, in the essence, is the bank risk management business forms the necessity of the permanent activity of business risk management, involving all bank divisions. In order to ensure the purposeful and coordinated activity, it is necessary by all means to formalize a risk management policy and to create a strategy. That way the bank may foresee and avoid the events unfavorable to the bank, not just mitigate their consequences.

Theoretically, a system approach to the bank risk management, in the essence, is understood as such, but practically various problems occur as regards the implementation of this approach. In fact, a risk management process should be based on reliable decision-making and implementation procedures, the comprehensive internal control and adequate information technologies (as we know, software is attributed to expensive resources). Practical implementation of the approach is impossible without qualified specialists – risk managers (such specialists are very few in number). Due to the said reasons, banks (especially, small ones) quite often are forced to doubt, whether it is worthwhile to implement that approach, whether input will not exceed benefit.

The topics of performance analysis and management of commercial banks are seldom analyzed in Lithuanian publications. At this point of view the monographs of professor Vytautas Vaškelaitis is essential for both practitioners in banking and high schools students that are specialized in economics studies.

The author analyses the beginning of commercial banking, trends and potentials of modern banking. The attention of readers should be attracted to the suggested problem of banking system vulnerability.

In the period of the reestablishment of an independent Lithuania, quite a number of banks went bankrupt. All that resulted from the disability of banks to manage their property and fulfill the undertaken balance and non-balance liabilities. And it could be hardly explained and justified by the insufficient experience of bank activity or macroeconomic problems.

The improper legislation, low requirements in respect of the authorized capital created opportunities for banks to establish themselves easily and to carry out the risky operation under hyperinflation conditions. This gave rise to the abundant and sudden emergence of banks (especially small ones).

The author investigates the banking risk types and presents both traditional and new methods and tools for risk management.

A separate bank in its operation process faces the totality of risks of different types (each bank operates under different conditions), and the same risk exerts to risk a different effect on a bank. Quite recently, the opinion prevailed that bank risk consists of credit risk and market risk types, the former of which is controlled by the bank, and the latter is without any control, and therefore it is impossible to eliminate either the risk itself or the losses caused due it. Today we already perceive that banks can successfully control the greater part of risk related to its operation, if they are able to identify the sources of risk. The author also gives attention to the analysis of banks balance sheets and presents the formulas calculating relative indexes.

The research of banks supervision presented in this monographs has practical value. The experience of banks supervision in foreign countries and possibilities of this experience adaptation in Lithuania are analyzed.

These monographs of professor Vytautas Vaškelaitis analyzing the core topics of commercial banks supervision and risk management draw special attention and wide discussions.

In most countries the national central bank effects control of the entire system of the bank. The central bank at the same time operates as the last liquidity source in the procedure prescribed by laws. The identification of supervision rules and normatives as well as their fulfillment control belong to its powers. The bank system should function within this stable and legal framework. Such framework is needed, since all credit institutions, in the essence, are interacting, and the collapse of any of them would

predetermine the worsening financial position of the institution. Therefore, it would be possible to state that external regulation has a great effect on the risk management system of banks.

In writing this book, the author used numerous legal-normative acts, references, and the experience of concrete banks. This makes it possible to expect

that the work will not seem to be superficial. Also we assure that the readers of this book will supplement and reinforce their knowledge in the field this book deals with.

*Prof. habil. dr. Jonas Mackevičius  
Vilnius University*

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.